

# **Exhibit 74**

01/18/01

Attorney Work Product

\*\*\* DRAFT \*\*\*

**CATALOG PRICE ADJUSTMENT**

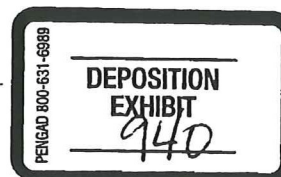
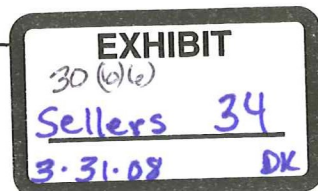
**PROPOSAL:** Reduce the catalog price of all Hospital Products Division Products to better correlate with the actual national market selling price range. A reduction would be predicated on the current Wholesaler Acquisition Prices (WAC) plus a fixed differential (+5%). This change would become effective April 1, 2001.

**BACKGROUND:** The product portfolio actively marketed by the Hospital Products Division (HPD) of Abbott Laboratories Inc. contains a significant number of product categories where we compete in hospital and alternate site health care arenas on a generic equivalency basis with other companies' offerings. Since 1986, the HPD net average selling prices have declined year over year due to this highly competitive market environment. The HPD catalog (a.k.a. suggested manufacturer's list price) price for these products has remained unadjusted despite significant erosion in actual selling prices. Due to other considerations related to contractual and government regulatory demands, HPD, prior to the year 2000, published annual increases once a year on the catalog prices. Increases that generally approximated the change in Consumer Price Index change for the Urban market basket (CPI-U), exacerbating any differential to "real" prices in the market. Though the majority of eventual sales dollars are processed at steep discounts to the catalog pricing under contractual commitments, there continues to be a small portion of sales (less than 1%) which are processed at these elevated levels. These higher priced sales are mainly from customers who order too infrequently to warrant contract coverage or are forced to use Abbott products due to intermittent shortages of a competitor's supplies.

The published pricing for wholesalers and distributors (Wholesaler Acquisition Price - WAC) is adjusted annually to reflect the erosion of final sale prices independent of the catalog price. WAC is evaluated annually by Accounting and Contract Marketing to adjust for market price trends. And once per year, new pricing is published to Abbott's trading partners.

The wide disparity in catalog prices and average market prices as currently configured is not supported by sufficient financial or market factors to survive scrutiny of public opinion. This was voiced in December 2000 in a letter from U.S. Representative Pete Stark to Miles White. The revenue impact of making this change may be affordable by the Corporation in 2001. The establishment of a process to annually define changes to the catalog pricing would avoid this type of public relations exposure in the future.

**DIVISION IMPACT:** Making the proposed adjustment to catalog prices would reduce the opportunistic sales historically made by HPD at the higher price level, and would eliminate the opportunity for price increases across the Federal Supply Schedule contract planned in 2001; for a guaranteed impact of \$1.7 million per year and \$1.2 million in 2001. Additionally, lowering the catalog price will reduce the Average Wholesale Price (AWP) published by the market clearinghouses and may result in lost sales due to alternative sourcing of products by customers away from Abbott in the alternate site markets where both government and commercial reimbursement to providers is based upon a function of AWP. A pending reduction of AWP proposed by the Department of Justice (DOJ) in several major alternate site products would force some portion of this impact for government-reimbursed care regardless of Abbott's actions. The potential volume loss is estimated at \$10.6 million annually and \$5.3 million in 2001.



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The sales dollar losses noted below reflect only the impact of changes to drug prices. No estimate has been made for a commensurate change to non-drug items (administration equipment and other med/surg items) which should also be considered in this process. Making this change effective April 1, 2001, will allow time for the full HPD organization to review all necessary products.

	<u>2001 IMPACT</u>	<u>ANNUALIZED IMPACT</u>
<b>Definite Impact - Price Lost Due to Reduction</b>		
• List Price & Special Price Sales	\$ 1.0 million	\$ 1.5 million
• Inability to Raise FSS Prices	\$ 0.1 million	\$ 0.2 million
<b>Potential Impact - Volume Lost due to Reimbursement Reductions</b>		
• Alternate Site Product Sales	\$ 4.4 million	\$ 8.8 million
• Home Infusion Revenue Sharing	\$ 0.9 million	\$ 1.8 million
<b>Total Potential Impact</b>	<b>\$ 6.4 million</b>	<b>\$ 12.3 million</b>

Does not include price changes on Critical Care products and products not manufactured, but sold by Abbott; such as products from Berlex, SKB, Gensia, HMR, etc.

**PRODUCT EXAMPLES:**

<u>NDC #</u>	<u>DESCRIPTION</u>	<u>LIST PRICE</u>	<u>WAC</u>	<u>ASP</u>	<u>NEW PRICE</u>
4332-01	Vancomycin, 500mg. Fliptop Vial	\$32.18	\$ 6.34	\$ 2.26	\$ 6.66
4452-01	Acyclovir, 1gm. Fliptop Vial	\$176.40	\$61.22	\$11.12	\$64.28
7983-09	Sodium Chloride, 1000ml. IV bag	\$ 10.61	\$ 1.02	\$ 0.77	\$ 1.44
5855-03	Aminosyn 8.5%, 500ml.	\$78.54	\$ 8.13	\$ 4.45	\$ 8.53
7808-24	Dopamine in D5W, 500ml.	\$34.62	\$14.53	\$ 7.6	\$15.26
9094-25	Fentanyl (0.5mg/ml) 5ml. Fliptop	\$14.33	\$ 0.93	\$ 0.77	\$ 1.13